

**PREPARED REMARKS OF
COMMISSIONER OF INTERNAL REVENUE
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BEFORE
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Thank you for that kind introduction, and thank you for inviting me back to the National Press Club for a second visit.

Unfortunately, as I make my second Press Club speech, I keep thinking of something that Casey Stengel said when he was coaching the Mets in their early days – when they were painful to watch. He lamented that the only thing worse than watching a Mets game was watching a Mets double header.

I love those pearls of wisdom from baseball philosophers like Casey, but today I'll go against the advice of another one, Satchel Paige. One of the things Satchel advised was "Never look back, something might be gaining on you." But since last week we celebrated the one-year anniversary of the signing of the IRS Restructuring and Reform Act, it's important to look back to assess where we stand today in accomplishing the objectives of this landmark legislation.

The Restructuring Act was truly a landmark in the history of the IRS because it laid out a fundamentally new direction for the agency – the first one we had since Harry Truman was in the White House. And since there are many, many detailed and complex provisions in the bill, including 71 new taxpayer rights, it's easy to get lost in the trees and fail to see the forest. But if one looks at this bill as a whole, including all that preceded it, it's clear that the IRS was given a new direction and a new challenge — namely to measure its success or failure, in terms of its effect on the people it serves as well as the taxes it collects. We were told that we must always respect taxpayer rights and we must provide a high quality of service to every taxpayer. And, let us not forget, we are also expected to see that the taxes that are due are paid. Let me add one more "and." In an era of tight budget caps, we are also supposed to do this very efficiently.

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Collectively, these expectations define what we mean by the new IRS, and we have now established them clearly as our goals.

Almost everyone would agree that these are worthy goals. The harder question is, can we achieve them? Certainly, there is a range of opinion on this question. Put another way, the big question is simply this: will we succeed or fail in building a new IRS?

I'll put myself in the optimists' camp. After 20 months in office, I'm more convinced than ever that we can succeed. We **can** build an IRS that scrupulously respects taxpayer rights, that provides high-quality service and collects taxes efficiently and fairly. But saying we *can* succeed is not the same as saying we *will* succeed. In fact most of the work in implementing the changes we need to succeed, and therefore most of the risk, remains ahead of us.

So at this point, let me briefly summarize what has been accomplished since the passage of the Restructuring Act and what challenges lie ahead.

First, we established and communicated a clear direction and statement of what we're trying to achieve. This is fundamental because you can't accomplish something if you can't even articulate what it is. We have a new mission statement and strategic goals that together define what we're expected to achieve. We also created new balanced performance measures aligned with these goals and we are well along in rewriting the job descriptions for nearly every employee and manager to reflect these goals. And extensive training is beginning to help people understand what these goals mean and how they affect their daily work.

I am very happy to report that our front-line employees and managers understood and acted where they could on this new direction, even without new tools or training. For this important change in attitude and commitment we owe much to the personal initiative of our managers and employees throughout the organization.

Our employees' response to the new direction probably had a more direct and immediate effect on taxpayers than anything else so far. And I received many comments from taxpayers, practitioners and Members of Congress saying that they saw a new and more positive attitude in dealing with the IRS. Even the press took note: On April 15 of this year, *USA Today* featured a cartoon of the IRS as a smiling face. I must admit I liked this a lot better than a cartoon I saw the previous year which had a picture of an executioner with the letters I-R-S stenciled on his hood.

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Over the past year, we also implemented all the new taxpayer rights, such as the due process in collections and innocent spouse. They were carried out on time although not without some missteps, and not without learning where we can still make improvements

And speaking of improvements, we made some much-needed improvements in service. We provided longer hours of operations and at convenient locations, increased options for filing and paying electronically, improved access to the taxpayer advocate and problem solving days to resolve particularly difficult cases.

We developed a comprehensive plan for a newly organized IRS structured around taxpayers' needs, rather than our own internal territories. We outlined major improvements in all our basic business practices, from customer service to collections, that hold the promise for better service, increased effectiveness in compliance and higher productivity. And this plan was not written in a vacuum. It was developed with active collaboration and support from all levels and parts of our work force and from our key constituency groups.

We also began to establish an effective management process for our technology. We are near to developing a practical program for the enormously difficult and risky job of replacing our antiquated computer systems that are older than the moonwalk we also celebrated this month.

And last but not least, this past year, we began to put in place teams of experienced and highly qualified executives, from inside and outside the IRS, to lead the new organization.

So, if I were to summarize what has been accomplished in the past twelve months, it amounts to: a clarified direction, a new attitude, some concrete and exciting plans, and some first steps towards achieving our goals.

That's what's on the plus side of the ledger. But we still have major problems. Frankly, we haven't yet succeeded in building an IRS that accomplishes, or is capable of accomplishing, our goals at an acceptable level.

We are still sending over 100 million notices per year to taxpayers that often only a tax lawyer could decipher or love. When taxpayers call us to get information, or to respond to one of these notices, the chances of getting through are only about 50

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percent. And because of our 1960s vintage computer systems, even when a taxpayer gets through, he or she may not be able to get accurate information about the problem, or get the problem resolved quickly.

These are but a few indicators of a basic fact. In spite of the best efforts of our dedicated employees, we are not yet able to deliver consistently an acceptable level of service to taxpayers.

There is also a flip side to the coin. As has been reported in the press, the number of audits and collections already declining before the passage of the Restructuring Act – will fall even further this fiscal year. They will drop on the order of 30-40 percent over what they were two years ago. This trend reflects a number of the stresses placed on the IRS: One, the continued decline in available staff resources. Two, the additional time and staff demands for implementing the Act's provisions without any new technology support. And three, confusion and anxiety among employees over carrying out these new provisions before receiving adequate training. Together, this poses the risk of increased unfairness in administration of the law, and ultimately, undermining our entire system of voluntary tax compliance.

And while we have plans for new business practices and new technology that could turn around our service and compliance effectiveness and efficiency, we have not yet implemented most of them.

Finally, as GAO has repeatedly reported, we have serious weaknesses in our basic tax administration financial systems and these deficiencies will persist until these systems are redesigned and replaced.

So, if I were to summarize what lies ahead of us a year after the Restructuring Act, it would be this: We still have to fix the IRS, and it won't be fast or risk-free.

I don't consider this assessment to be in any way surprising or pessimistic. It's certainly no reflection on our employees who are doing the best they can with the tools they have. Before even taking office, it was clear to me that building an IRS that met the new expectations of the public and the Congress would require years of sustained effort and would involve many risks. One prediction I made in my confirmation hearing was that it would take the better part of decade to do what needed to be done. So far, 17 percent of a decade has passed, and this is one prediction that I stand by.

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So I think you can see why I believe that while we can succeed in reaching our goals, success is by no means assured.

The next 18-24 months are critical. During this time, we still will not have completed implementation of many of the changes we plan, but nevertheless it's likely that a consensus will form as to whether our modernization program is working or not.

And, if we don't succeed this time, I'm not sure we'll get another try. If we fail, it's more likely people will say, "See, you can't fix the IRS. You can't have taxpayer rights, provide good service and still collect the taxes with any degree of efficiency." If that happens, the consequences are unpredictable. But it certainly demonstrates the stakes are high.

So what do we need to succeed? Essentially three important commodities.

First, continued interest and support for the modernization program from our key stakeholders. To date, unlike rainfall in Washington, this commodity has been in abundant supply. The Treasury, under the leadership of now Secretary Summers and Assistant Secretary for Management and CFO Nancy Killefer, has been an incredibly supportive and effective partner. All of the key congressional committees, especially the chairs and ranking members, have gone out of their way to offer help and support at every turn. The National Treasury Employees Union and our managers associations have been very constructively engaged with us, and our practitioner and industry groups have been marvelously supportive.

Second commodity: time. I've already commented on how long we need to succeed. And in all fairness, our stakeholders' tolerance belies the conventional wisdom of Washington that instant gratification is required. To date, I have found little of such an unrealistic demand, although that doesn't mean I don't still worry about it. But eventually, patience will run thin.

Third commodity: resources. Interestingly, we don't need a great deal more in the way of resources for the IRS to succeed. That's because our basic program relies mainly on improved management, business practices and technology. But we must have some additional resources, especially for the transition period in the next few years.

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Our most important resource, which consumes most of the budget, is people, and this continues to decline. Notwithstanding the increased demands of the Restructuring Act, the other new tax laws and a rapidly growing economy, the IRS this year has 1,600 fewer full time people than it did last year and 13,000 fewer than four years ago.

Our other critical resource is technology. In recent years, we haven't implemented any new systems, as we consumed most of our technology resources fixing the Y2K problem. In fact, because of some of the new taxpayer right provisions cannot be accommodated by our old technology, we're having to implement them in very labor intensive and error prone ways.

So in the next few years, we will need funds to continue operations at an acceptable level and to implement the modernization program. Without these resources, our chances of success will not be good.

Let me conclude by saying that as I look back over the past year, I am not as worried as Satchel Paige. True enough, we have some problems that are gaining on us, but we also overcome a lot of problems in the past year. Today, I am more optimistic about our chances of success than on the day I took office. Of course, most of my friends say I'm a born optimist or I would never have taken this job in the first place. But while I may indeed be an optimist, I don't think I'm a hopeless optimist. And that's why I have provided you what I consider to be a realistic assessment of where we are today, and where I see us in the years to come. And years from now, I hope we will be able to look back, not with fear that something is gaining on us, but with pride on the work we began last year and continue today. Thank you and I would be happy to take your questions.

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